

**Special Report**  
**Review of Audits of Outside Agencies**

January 2001

**City Auditor's Office**  
**City of Kansas City, Missouri**

January 17, 2001

Honorable Mayor and Members of the City Council:

This review of audits of outside agencies was initiated by the city auditor pursuant to Article II, Section 13 of the city charter. This report, which is required by Section 2-113 of the Code of Ordinances, focuses on reviewing the financial audit reports, internal control reports, and compliance reports of those agencies that receive at least \$100,000 in city funding annually. This is our third report on audits of outside agencies.

Overall, the financial statement audits and compliance reports show improvement for some agencies. For the first time since we began reviewing and reporting annually on agencies' audits, none of the agencies received negative opinions on their financial statement audits. Auditors for a slightly higher proportion of agencies had concerns regarding the agencies' internal control structures or compliance, but fewer agencies had material weaknesses (the most serious condition) and noncompliance with laws, regulations, and/or contract or grant agreement provisions.

Our previous reports on outside agencies were issued in June, but we have changed our release date to January to coincide with budget deliberations. This change will allow the mayor and City Council to be aware of and consider problems in an agency's financial statements or internal control structure when making funding decisions for the upcoming fiscal year. In fiscal year 2000, 44 outside agencies received almost \$93 million in funding or pass-through money to operate or administer a program or service which furthers the public good.

I would like to thank the city departments who monitor these agencies for their prompt submission of the agencies' audit reports. The team for this project was Mary Jo Emanuele and Joyce Patton.

Mark Funkhouser  
City Auditor

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# Review of Audits of Outside Agencies

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## Introduction

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### Objectives

This review of audits of outside agencies was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the office of the City Auditor and outline's the city auditor's primary duties. This review is also required by Committee Substitute for Ordinance 990766 which requires the city auditor to review audits of outside agencies and report the negative opinions, reportable conditions, and material weaknesses to the mayor, City Council and city manager on an annual basis. This is our third report.

The purpose of this report is to provide the mayor and City Council with information on the performance of agencies receiving significant city funding and assist them when making decisions about future funding for these agencies.

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### Scope and Methodology

Our review was limited to those agencies receiving \$100,000 or more from the city in fiscal year 2000<sup>1</sup>. This review is based on the most recent audit reports we received as of December 15, 2000. Audit reports are usually based on the agency's fiscal year which can vary from the city's fiscal year.

Our review was performed in accordance with applicable government auditing standards. Our methods included:

- Identifying outside agencies that received at least \$100,000 annually from the city.
- Obtaining and reviewing audits of financial statements, reports on internal controls and compliance, and management letters.

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<sup>1</sup> Although Community Development Corporation, Minority Contractors Association, and the Westside Housing Organization did not receive \$100,000 during fiscal year 2000, we included them in this review because they received over \$100,000 in calendar year 2000 and have received over \$100,000 annually in the past.

- Identifying and summarizing opinions on financial statements, reportable conditions, material weaknesses, and material noncompliance identified by the agencies' external auditors.

No information was omitted from this report because it was deemed privileged or confidential.

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## **Background**

### **Legislative Authority**

**Code of Ordinances.** Section 2-113 of the Code of Ordinances requires any agency receiving \$100,000 or more annually in city funding to submit a financial audit, management letter, and response to the management letter to the city auditor and the agency's monitoring department within six months of the end of the agency's fiscal year. In addition, the agencies are required to engage a professional qualified to analyze the agency's internal control structure and furnish the city auditor with a copy of the analysis.

These requirements became effective in July 1999<sup>2</sup> when most agencies were in their 2000 fiscal year. As a result, not all agencies will satisfy these requirements for the audits reviewed for this report. We have had to request most of the reports from the monitoring departments, not all agencies have an analysis of their internal control structure, and not all audits have been completed timely. By the time of our next review in 2002, all agencies will be expected to comply with the code requirements.

**OMB Circular A-133.** Agencies receiving at least \$300,000 annually in federal funding have additional reporting requirements. The (U.S.) Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, requires these agencies to have reports on internal controls over financial reporting and compliance with laws, regulations, and contract or grant agreement provisions.

**Administrative Regulation (AR) 3-15.** Administrative Regulation 3-15, "Contracts with Non-Municipal Agencies," establishes comprehensive policies and procedures for entering into and monitoring

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<sup>2</sup> Committee Substitute for Ordinance No. 990766, July 8, 1999.

all contracts for service between the city and non-municipal agencies. AR 3-15 defines a non-municipal agency as:

Any entity with which the city contracts and/or provides funds for the operation or administration of a program or services which furthers the public good. This includes not-for-profit, public or quasi-public agencies. This does not include entities which contract with the Commissioner of Purchases and Supplies, business entities with which the city contracts for construction, consultant or engineering services, or governmental entities with which the city contracts for services.

### **Funding**

During fiscal year 2000, the city provided almost \$93 million to 44 non-municipal agencies, comprising over 11 percent of the city's expenditures during that year. Eight city departments contract with outside agencies and are responsible for monitoring the agencies' performance. The size of the city's expenditures devoted to fund non-municipal agencies makes it important for the mayor and City Council to be informed of any concerns expressed by the agencies external auditors that may jeopardize the agency's ability to safeguard and use properly the funding it receives from the city. (See Exhibit 1 for fiscal year 2000 funding by agency and monitoring department.)

Exhibit 1. Funding Provided to Outside Agencies in Fiscal Year 2000

Agency	Funding
<b>City Planning &amp; Development</b>	
18 <sup>th</sup> & Vine Authority	\$ 981,626
Economic Development Corporation of Kansas City	1,626,601
Land Clearance for Redevelopment Authority	219,865
Port Authority of Kansas City	223,333
Tax Increment Financing Commission	12,109,149
<b>Convention &amp; Entertainment Centers</b>	
Convention & Visitors Bureau	4,428,874
<b>Finance</b>	
Kansas City Museum Association	961,326
<b>Health</b>	
Cabot Westside Clinic	216,107
Children's Mercy Hospital	4,109,737
Good Samaritan Project	787,287
Heartland Aids Resource Council	197,722
Kansas City Free Health Clinic	835,549
MAST	2,132,135
Samuel U Rodgers Community Health Center	666,619
SAVE, Inc.	987,963
Swope Parkway Health Center	737,879
Truman Medical Center <sup>3</sup>	27,691,464
<b>Housing &amp; Community Development</b>	
Black Economic Union of Greater Kansas City	396,830
Community Development Corporation	30,777
East Meyer Community Association, Inc.	143,980
Greater Kansas City Housing Information Center	114,033
Hispanic Economic Development Corp.	167,695
Housing and Economic Development Financial Corporation	7,190,410
Kansas City Downtown Minority Development Corporation	145,000
Kansas City Neighborhood Alliance	127,846
Midtown Community Development Corporation	356,905
Minority Contractors Association of Greater Kansas City	97,934
Neighborhood Housing Services of Kansas City	101,812
Northland Neighborhoods, Inc.	151,908
Old Northeast, Inc.	266,382
Planned Industrial Expansion Authority	460,168
Twelfth Street Heritage Development Corporation	141,737
Westside Housing Organization	45,188

<sup>3</sup> Funding for Truman Medical Center includes general fund and health levy contributions.

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**Neighborhood & Community Services**


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Guadalupe Center Inc	317,379
KCMC Child Development Corporation	172,422
Legal Aid of Western Missouri	691,329
Metropolitan Lutheran Ministry	205,266
Operation Breakthrough, Inc	207,932
ReStart, Inc.	124,177
United Inner City Services Agency	145,317
United Services Community Action Agency	161,539

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**Office of Environmental Management**


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Bridging the Gap Inc	389,039
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**Public Works**


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Full Employment Council	183,483
Kansas City Area Transportation Authority	21,429,618

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<b>Total City Funding</b>	<b>\$92,879,342</b>
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Sources: Annual agency audits; city's financial management system; and City Manager's FY 2001 Adopted Budget.





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## Analysis

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### Summary

For the first time since we began reporting annually on the agencies' audits, none of the agencies received negative opinions on their financial statement audits. A slightly higher proportion of agencies had deficiencies in their internal control structure but a slightly lower proportion had the most serious type of deficiency.

Auditors for 11 of the 44 agencies we reviewed had concerns they were required to report. Last year, 9 out of 43 agencies reviewed had problems. The number of agencies receiving qualified opinions on their financial statements or having material weaknesses or material noncompliance has decreased since 1999. Three more agencies had reportable conditions in the reports we reviewed this year compared to those we reviewed last year. (See Exhibit 2.)

Exhibit 2. Type of Findings

Finding	Number of Agencies <sup>4</sup>		
	1999	2000	2001
Qualified Opinion	3	1	0
Reportable Condition	13	8	11
Material Weakness	4	2	2
Material Noncompliance	5	4	3

Sources: Annual agency audits.

Exhibit 3 on the following page is a summary, by monitoring department, of the reports we reviewed and the findings indicated by their auditors. These include the most recent reports we received and any reports we have not reported on in the past.

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<sup>4</sup> An agency can have multiple findings in any review period.

Exhibit 3. Summary of Reports Reviewed and Findings

Agency Name	Report Date <sup>5</sup>	Type of Opinion	Reportable Condition <sup>6</sup>	Material Noncompliance <sup>7</sup>
<b>City Planning &amp; Development</b>				
18th & Vine Authority	4/30/00	Unqualified	Unknown	N/A
Economic Development Corporation of KC	4/30/00	Unqualified	No	No
Land Clearance for Redevelopment Authority	4/30/00	Unqualified	No	No
Port Authority of Kansas City Missouri	4/30/00	Unqualified	No	No
Tax Increment Financing Commission	4/30/00	Unqualified	No	No
<b>Convention &amp; Entertainment Centers</b>				
Convention & Visitors Bureau of Greater Kansas City	4/30/00	Unqualified	Unknown	N/A
<b>Finance</b>				
Kansas City Museum Association	4/30/99	Unqualified	Yes	N/A
<b>Health</b>				
Cabot Westside Clinic	12/31/99	Unqualified	Unknown	N/A
Cabot Westside Clinic	12/31/98	Unqualified	Unknown	N/A
Children's Mercy Hospital	6/30/99	Unqualified	No	No
Good Samaritan Project	12/31/99	Unqualified	Yes	Yes
Heartland Aids Resource Council	12/31/99	Unqualified	No	No
Kansas City Free Health Clinic	3/31/00	Unqualified	No	No
MAST	4/30/00	Unqualified	Yes	N/A
Samuel U Rodgers Community Health Center	9/30/99	Unqualified	Yes	Yes
SAVE, Inc.	6/30/99	Unqualified	Yes	No
Swope Parkway Health Center	12/31/99	Unqualified	No	No
Truman Medical Center	4/30/99	Unqualified	Yes <sup>8</sup>	Yes
<b>Housing &amp; Community Development</b>				
Black Economic Union of Greater Kansas City	12/31/99	Unqualified	No	No
Community Development Corporation	2/29/00	Unqualified	No	No
East Meyer Community Association, Inc.	5/31/99	Unqualified	No	No
Greater Kansas City Housing Information Center	12/31/99	Unqualified	No	No
Hispanic Economic Development Corporation	5/31/99	Unqualified	No	No
Housing & Economic Development Financial Corp	5/31/99	Unqualified	Yes	No
Kansas City Downtown Minority Development Corp	6/30/99	Unqualified	Unknown	N/A
Kansas City Neighborhood Alliance	12/31/99	Unqualified	Unknown	N/A
Midtown Community Development Corporation	12/31/99	Unqualified	No	No
Minority Contractors Association of Greater KC	5/31/99	Unqualified	No	No
Neighborhood Housing Services of Kansas City, Inc.	9/30/99	Unqualified	Yes	N/A
Northland Neighborhoods, Inc.	5/31/99	Unqualified	Unknown	N/A

<sup>5</sup> According to the monitoring departments, the following agencies' 1999 audits are still in progress: Planned Industrial Expansion Authority; Guadalupe Center, and United Inner City Services. In addition, the monitoring departments also informed us that the following agencies' 2000 audits are still in progress: Kansas City Museum Association; Truman Medical Center; and Planned Industrial Expansion Authority.

<sup>6</sup> Unknown indicates we did not receive any type of analysis of the agency's internal control structure.

<sup>7</sup> N/A indicates the agency was not required to submit a compliance report.

<sup>8</sup> The reportable condition for Truman Medical Center is also a material weakness.

Agency Name	Report Date <sup>5</sup>	Type of Opinion	Reportable Condition <sup>6</sup>	Material Noncompliance <sup>7</sup>
Old Northeast, Inc.	12/31/99	Unqualified	Yes	No
Planned Industrial Expansion Authority	4/30/98	Unqualified	No	No
Twelfth Street Heritage Development Corporation	5/31/99	Unqualified	No	No
Westside Housing Organization	5/31/99	Unqualified	No	No
<b>Neighborhood &amp; Community Services</b>				
Guadalupe Center, Inc.	12/31/98	Unqualified	No	No
KCMC Child Development Corporation	6/30/99	Unqualified	No	No
Legal Aid of Western Missouri	12/31/99	Unqualified	No	No
Metropolitan Lutheran Ministry	1/31/00	Unqualified	Unknown	N/A
Operation Breakthrough, Inc.	10/31/99	Unqualified	No	No
ReStart, Inc.	12/31/99	Unqualified	No	No
ReStart, Inc.	12/31/98	Unqualified	No	No
United Inner City Services, Inc.	12/31/98	Unqualified	No	No
United Services Community Action Agency	9/30/99	Unqualified	Yes <sup>9</sup>	No
<b>Office of Environmental Management</b>				
Bridging the Gap, Inc.	4/30/00	Unqualified	Unknown	N/A
<b>Public Works</b>				
Full Employment Council	6/30/99	Unqualified	Yes	No
Kansas City Area Transportation Authority	12/31/99	Unqualified	No	No

Sources: Annual agency audits performed by the agencies' outside auditors for the years ended as indicated above.

## Qualified Opinions

None of the agencies received a qualified opinion on their financial statements. Qualified opinions are issued by auditors when they see unjustified departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. This is the first time since we began reviewing and reporting annually on audits of outside agencies that none of them have received a qualified opinion.

<sup>9</sup> The reportable condition for United Services Community Action Agency is also a material weakness.

## **Reportable Conditions and Material Weaknesses**

The number of agencies with reportable conditions increased from 8 in our June 2000 report to 11. Reportable conditions indicate that the auditors believe there are significant deficiencies in the design or operation of an entity's internal control structure, and that the deficiencies could adversely affect the entity's ability to record and report financial data. Examples of reportable conditions include not reconciling subledgers to the general ledger, lack of segregation of duties, and not properly accruing or recording liabilities.

For two of the agencies we reviewed, the reportable conditions were significant enough for their auditors to consider them to be material weaknesses. A material weakness is a reportable condition in which the design or operation of specific internal controls does not ensure that material errors or irregularities will be detected promptly by employees in the normal course of work. Material weaknesses could have a significant effect on the financial statements. (See Appendix A for agencies with reportable conditions and material weaknesses and the reasons.)

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## **Material Noncompliance**

Three out of 34 agencies had material noncompliance with laws, regulations and/or contract or grant agreement provisions.<sup>10</sup> This compares to four out of 31 agencies in our June 2000 report that had material noncompliance. Examples of material noncompliance include not maintaining records, deficiencies in case management, and lack of required documentation. Although not always the case, the agencies that had material noncompliance were also three of the agencies that had at least one reportable condition. (See Appendix B for agencies with material noncompliance and the reasons.)

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<sup>10</sup> Only those agencies receiving at least \$300,000 in federal funding are required to have a report on compliance.

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## **Appendix A**

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### **Reasons for Reportable Conditions**



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## Finance

### **Kansas City Museum Association (4/30/99)**

- Unable to trace three cash receipts from the originating documents to the general ledger or to the daily deposit slip.
- While accounting for the Museum's fixed assets, the auditors encountered difficulty trying to agree the reports generated from the software utilized to the general ledger.

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## Health

### **Good Samaritan Project (12/31/99)**

- Due to size of the accounting department, there is little segregation of the accounting functions.

### **MAST (4/30/00)**

- Certain significant general ledger accounts of MAST were not properly analyzed or reconciled prior to the annual audit including fixed assets and accounts payable.
- The accounts receivable subsidiary ledger was not reconciled monthly to the general ledger.
- Certain liabilities were not properly accrued or recorded by MAST at year end, including vacation, payroll and accrued liabilities.
- MAST did not record its December 1999 debt payment, the 1999 debt service contribution from the city of Kansas City, Missouri, the interest appropriation receivable at year end, or the additional rents under the operating lease agreement with the city of Kansas City, Missouri.
- The cash account reconciliation was not performed on a monthly basis.
- The prior year-end adjustment entries were not properly reversed in the current year, which caused additional current year audit adjustments.
- The accounts receivable allowance for doubtful accounts was not thoroughly analyzed to determine the appropriate allowance at year end.



- MAST has not developed a comprehensive business continuity plan for use in the event of a disaster that may render the computer systems or other critical business processes inoperable for an extended period of time.

**Samuel U Rodgers Community Health Center (9/30/99)**

- During the year, the accounts payable and accounts receivable subledgers were not reconciled to the general ledger.
- Certain individuals have assigned duties, access or the ability to process, record and monitor transactions in the accounting cycles, which are considered to be conflicting duties in an effective internal control structure.
- Due to the cash flow situation, a large number of checks were held at year end.

**SAVE, Inc. (6/30/99)**

- While the monthly reimbursements for government funds have been calculated correctly, the monthly internal financial statements of SAVE, Inc. and its affiliates do not provide complete and accurate information because:
  - No prior year audit adjustments have been recorded, resulting in an understatement of net assets of June 30, 1999 of approximately \$257,000.
  - SAVE Development, Inc.'s transactions are recorded in two separate general ledgers and the financial statements do not combine this information.
  - The monthly financial statements reflect significant accounts receivable balances related to intercompany balances that cannot be substantiated. Some of these balances would be eliminated by recording prior year audit adjustments.
  - The bank reconciliation for SAVE, Inc.'s operating account at June 30, 1999 was not prepared correctly.
- The general ledger software currently in use is no longer supported by the maker and appears to be outdated.
- The Form 990's for SAVE, Inc. and SAVE Development, Inc. as of June 30, 1999 were prepared prior to the current financial statement audit and as a result the Form 990's contain inaccurate information.

- Financial statements were not submitted to HUD on a timely basis.

#### **Truman Medical Center (4/30/99)**

- Certain individuals have assigned duties, access or the ability to process, record and monitor transactions in the accounting cycles, which are considered to be conflicting duties in an effective internal control structure. **(NOTE: This reportable condition is also a material weakness.)**
- In regard to the Community Mental Health Block Grant the following was found:
  - The provider's system does not have the capability to charge patients meeting certain income levels for the self-pay portion as required by the grant.
  - One billing out of 30 tested showed that more units were billed to the grant than were actually provided to the patients.

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## **Housing and Community Development**

#### **Housing and Economic Development Financial Corporation (5/31/99)**

- Reconciliation procedures between detail records and the general ledger and analyses of account balances are not fully in place or completed in a timely manner for various general ledger balances.
- The Vice President of Finance's access to the accounting records, control of the signature stamp, and receipt of the bank statements represents incompatible duties.

#### **Neighborhood Housing Services of Kansas City, Inc. (9/30/99)**

- Neighborhood Housing Services experienced the loss of accounting records maintained on the hard drive of the computer. A great deal of time and money was required to reassemble the information because the organization did not have the appropriate back up computer equipment.

#### **Old Northeast, Inc. (12/31/99)**

- The properties sold and other dispositions had not been reflected in the its entirety in the books.

## **Neighborhood and Community Services**

### **United Services Community Action Agency (9/30/99)**

- Cash donations collected by the Platte County Outreach Center were not deposited on a timely basis. **(This reportable condition is also a material weakness.)**

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## **Public Works**

### **Full Employment Council (6/30/99)**

- The FEC maintained an excess cash balance for one month during fiscal year 1999.
- For the Welfare to Work Program a participant did not meet two of the specified barriers to employment.

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## **Appendix B**

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### **Reasons for Material Noncompliance**



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## Health

### **Good Samaritan Project (12/31/99)**

- Time and effort records were not maintained for employees whose salary was charged to more than one program.
- Case management review by the City of Kansas City, Missouri disclosed several deficiencies in case management.

### **Samuel U Rodgers Community Health Center (9/30/99)**

- Ten out of 30 patient files, with discounts totaling \$749, lacked the documentation necessary to verify patients' income and determine the appropriate discount percentage.
- Three out of 30 patient files, with discounts totaling \$580, had insurance and were, therefore, inappropriately given discounts.

### **Truman Medical Center (4/30/99)**

- In regard to Federal Family Education Loans, out of 4 students tested, 2 did not have documentation in their file supporting an entrance interview.
- Regarding the Maternal and Child Block Grant, monthly reports required to be filed to the granting authority were not always filed timely.